



People Telecom Limited

Results for the 2006 Financial Year

Sydney, Australia. Thursday 31 August 2006. People Telecom (ASX/NZX: PEO) today announced its results for the financial year ended 30 June 2006.

The group, which differentiates through its service delivery standards, continued to grow its revenue base – recording an 11% rise in total revenue to \$110.8 million.

The strongest growth for the group came from mobile revenue, which rose by 16% to \$20.2 million. Fixed voice also provided robust growth, rising 15% resulting in revenue of \$65.8 million.

Overall, People Telecom recorded a loss from ordinary activities after income tax of \$21.6 million for the financial year. This was due principally to a write-down of \$21.2 million in the value of goodwill, in compliance with new accounting rules.

The write-down, or asset impairment loss, is in the value of the goodwill generated upon the merger of the People Telecommunications Pty Limited group of companies and the Swiftel group of companies in 2004.

Excluding this, the EBITDA for the year was \$0.5 million, and the operating loss was \$0.4 million.

Other results for the year ended 30 June 2006 include:

- Net operating cash flow increased to \$2.5 million, compared to \$0.1 million in 2005.
- Gross margin grew 2% to \$25.4 million (2005: \$25.0 million), although gross margin percentage fell from 24.9% in 2005 to 22.9% in 2006, largely as a result of the impact of acquisition subsidies in mobile and ADSL.
- Business grade data revenue grew by 10% due to strong demand for business grade IP Virtual Private Networks, and growth in sales of co-location services. However data revenue overall fell by 2% to \$24.8 million, also largely as a result of acquisition subsidies.
- Operating costs grew 9% to \$24.9 million, which included a number of non-recurring items including a theft/loss of \$381,165, the costs of the establishment and subsequent closure of an advertising department of \$220,000 and tenancy termination costs of \$174,000.

Outlook for the full 2007 Financial Year

The group is undertaking a wide-ranging program to improve operational efficiencies and internal processes. This is designed to further improve customer service, maximise customer retention, generate profitable growth and put People Telecom on a stronger competitive footing.

While the commercial environment in Australia will continue to pose challenges for all telecommunications players, the benefits of enhanced operating efficiency at People Telecom are expected to flow through to the group's financial performance during the current financial year.

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Appendix 4E

Preliminary final report Year ended 30 June 2006

PEOPLE TELECOM LIMITED ACN 009 273 152
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Results for announcement to the market

				\$A'000
(2.1)The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities	Up	11%	to	110,781
(2.2)The amount and percentage change up or down from the previous corresponding period of (loss) from ordinary activities after tax attributable to members.	Up	3,625%	to	(21,609)
(2.3)The amount and percentage change up or down from the previous corresponding period of net (loss) for the period attributable to members.	Up	3,625%	to	(21,609)
(2.4) It is not proposed to declare or pay any dividend in relation to the period.				

Brief explanation of Results

During the year the group continued to grow its revenue base – recording an 11% rise in total revenue to \$110.8 million. Mobile revenue exhibited the fastest growth, rising by 16% to \$20.2 million, while fixed voice also performed robustly, with a 15% growth rate bringing revenue to \$65.8 million.

Overall, People Telecom recorded a loss from ordinary activities after income tax of \$21.6 million for the financial year. This was due principally to a write-down of \$21.2 million in the value of goodwill, in compliance with new accounting rules.

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- Net operating cash flow increased to \$2.5 million, compared to \$0.1 million in 2005.
- Gross margin grew 2% to \$25.4 million (2005: \$25.0 million), although gross margin percentage fell from 24.9% in 2005 to 22.9% in 2006, largely as a result of the impact of acquisition subsidies in mobile and ADSL.
- Business grade data revenue grew by 10% due to strong demand for business grade IP Virtual Private Networks, and growth in sales of co-location services. However data revenue overall fell by 2% to \$24.8 million, also largely as a result of acquisition subsidies.
- Operating costs grew 9% to \$24.9 million, which included a number of non-recurring items including a theft/loss of \$381,165, the costs of the establishment and subsequent closure of an advertising department of \$220,000 and tenancy termination costs of \$174,000.

Revenue for the year	2006	2005	Growth year on year	% Growth year on year
	\$	\$	\$	
Fixed Voice	65,759,249	57,305,146	8,454,103	15%
Mobile	20,243,246	17,522,940	2,720,306	16%
Data	24,779,096	25,213,031	(433,935)	(2%)
Total	<u>110,781,591</u>	<u>100,041,117</u>	<u>10,740,474</u>	<u>11%</u>

Gross Margin for the
year

Fixed Voice	13,629,908	12,212,567	1,417,341	12%
Mobile	4,474,244	4,582,070	(107,826)	(2%)
Data	7,284,985	8,160,560	(875,575)	(11%)
Total	<u>25,389,137</u>	<u>24,955,197</u>	<u>433,940</u>	<u>2%</u>

People Telecom Limited
Income Statements
For the year ended 30 June 2006

	Note	Consolidated	
		2006	2005
Revenue from rendering telecommunication services	2	110,781,591	100,041,117
Cost of sales		<u>(85,392,454)</u>	<u>(75,085,920)</u>
Gross margin		25,389,137	24,955,197
		22.9%	24.9%
Operating Costs			
Wages and related expenses		(13,034,635)	(11,851,637)
Advertising and promotion expenses		(610,942)	(633,844)
Billing and collection costs		(1,018,967)	(1,216,684)
Dealer charges		(3,192,981)	(2,853,984)
Insurance		(238,008)	(224,868)
Professional fees		(480,270)	(629,728)
Rental expenditure		(1,798,472)	(1,408,897)
Other operating expenses		(4,491,370)	(4,051,498)
		<u>(24,865,645)</u>	<u>(22,871,140)</u>
		22.4%	22.9%
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)		<u>523,492</u>	<u>2,084,057</u>
		0.5%	2.1%
Depreciation and Amortisation	3	(771,389)	(700,538)
Finance costs	3	(95,125)	(103,444)
Asset impairment loss	3	(21,241,233)	(1,907,433)
Plant and equipment written off		(208,231)	(156,328)
Interest income	2	188,979	187,274
(Loss) from ordinary activities before income tax		<u>(21,603,507)</u>	<u>(596,412)</u>
Income tax expense relating to ordinary activities	4	6,160	-
(Loss) attributable to members of People Telecom Limited		<u>(21,609,667)</u>	<u>(596,412)</u>
Basic earnings/(loss) per share (cents per share)	5	(7.04)	(0.20)
Diluted earnings/(loss) per share (cents per share)	5	(7.04)	(0.20)

The accompanying notes form an integral part of these financial statements.

People Telecom Limited
Balance Sheets
For the year ended 30 June 2006

	Note	Consolidated 2006 \$	2005 \$
Current Assets			
Cash assets	6	4,882,774	2,671,522
Receivables	7	14,138,073	16,150,591
Other	8	3,691,783	3,418,381
Total Current Assets		22,712,630	22,240,494
Non Current Assets			
Other financial assets	9	819,643	1,557,403
Property, plant and equipment	10	2,766,146	2,983,579
Other	11	479,561	489,222
Goodwill	12	15,000,000	36,241,233
Total Non Current Assets		19,065,350	41,271,437
Total Assets		41,777,980	63,511,931
Current Liabilities			
Payables	13	18,092,253	17,717,472
Interest bearing liabilities	14	265,789	390,453
Provisions	15	476,780	441,087
Other	16	3,142,743	3,619,548
Total Current Liabilities		21,977,565	22,168,560
Non-Current Liabilities			
Interest bearing liabilities	17	-	178,238
Other	18	585,002	620,209
Total Non-Current Liabilities		585,002	798,447
Total Liabilities		22,562,567	22,967,007
Net Assets		19,215,413	40,544,924
Equity			
Contributed equity	19	62,383,448	62,103,292
Accumulated Losses	20	(43,168,035)	(21,558,368)
Total Equity		19,215,413	40,544,924

The accompanying notes form an integral part of these financial statements.

People Telecom Limited
Statements of Changes in Equity
For the year ended 30 June 2006

	Note	Consolidated	
		2006 \$	2005 \$
(Loss) attributable to members of People Telecom Limited		(21,609,667)	(596,412)
Transactions with equity holders in their capacity as equity holders			
Issue of Shares	19(b)	282,968	7,500
Share Issue Costs	19(b)	(2,812)	(17,607)
Net (decrease) in Equity		<u>(21,329,511)</u>	<u>(606,519)</u>
Total equity at the beginning of the financial year		40,544,924	41,151,443
Total equity at the end of the financial year		<u><u>19,215,413</u></u>	<u><u>40,544,924</u></u>

The accompanying notes form an integral part of these financial statements.

People Telecom Limited
Statements of Cash Flows
For the year ended 30 June 2006

	Note	Consolidated 2006 \$	2005 \$
Cash Flow From Operating Activities			
Receipts from customers		119,522,714	100,840,430
Payments to suppliers & employees		(117,069,015)	(100,816,477)
Interest received		188,979	187,273
Interest and borrowing costs paid		(95,125)	(103,444)
Taxation paid		(6,160)	-
Net cash generated by operating activities		<u>2,541,393</u>	<u>107,782</u>
	21		
Cash Flow From Investing Activities			
Payment for property, plant & equipment		(757,643)	(694,480)
Proceeds from returned deposits		737,760	180,007
Acquisition of customer bases		(4,545)	-
Net cash (used in) investing activities		<u>(24,428)</u>	<u>(514,473)</u>
Cash Flow From Financing Activities			
Proceeds from share issues		-	7,500
Payment of share issue costs		(2,812)	(17,607)
Proceeds from loans		254,930	206,763
Payment of loans		(280,523)	(157,802)
Repayment of finance lease principal		(277,308)	(517,689)
Net cash (used in) financing activities		<u>(305,713)</u>	<u>(478,835)</u>
Net increase / (decrease) in cash held		<u>2,211,252</u>	<u>(885,526)</u>
Cash at beginning of the financial year		2,671,522	3,557,048
Cash at the end of the financial year		<u>4,882,774</u>	<u>2,671,522</u>
	6		

The accompanying notes form an integral part of these financial statements.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS), Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on an accrual basis and is based on historical costs and except where stated does not take into account changing money values or current valuations of non-current assets.

This is the first financial report of the consolidated entity prepared in accordance with AIFRS. The financial reports of the consolidated entity were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below. Reconciliations of equity and operating profit/loss between AGAAP and AIFRS are provided under notes 22 to 25 of the preliminary final report.

The preparation of this financial report requires the consolidated entity to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The material area where the consolidated entity has made judgements and estimates that has significant effect on the financial report is in respect of any impairment of intangible assets. The estimates in respect of this are detailed in note 12 of the preliminary final report.

The significant accounting policies that have been adopted in the preparation and presentation of the financial report are set out in the following pages.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

a) Going concern

The consolidated entity made a loss from ordinary activities of \$21,609,667 for the year ended 30 June 2006 (2005: \$596,412).

The directors have prepared the financial statements of the consolidated entity on a going concern basis. In arriving at this position the directors have had regard to the following pertinent matters:

- a) The consolidated entity generated a net cash inflow from operations for the year ended 30 June 2006.
- b) Total cash and debtors as at 30 June 2006 exceed creditors at the same date.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, which might be necessary should the company and the consolidated entity not be able to continue as a going concern.

b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising People Telecom Limited (the parent entity) and all entities that People Telecom Limited controlled during the period and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent entity obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent entity has control. There were no entities over which control has been gained or lost in the year ended 30 June 2006.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

c) Cash and cash equivalents

Cash and cash equivalents include:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) investment in money market instruments with less than 90 days to maturity.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

d) Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for doubtful debtors. An estimate for doubtful debtors is made when based on past experience, collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest when charged is taken up as income on an accrual basis.

e) Acquisition of Assets

All assets acquired including plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Expenditure is only recognised as an asset when the consolidated entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

g) Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net identifiable assets at date of acquisition.

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. (Refer also to note 22 regarding first-time adoption of AIFRS).

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

h) Other assets and liabilities

Expenditure is only recognised as an asset when the consolidated entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be reliably measured. Otherwise, expenditure is expensed as incurred.

VOIP Handset costs

The cost of VOIP (Voice over Internet Protocol) handsets purchased for or on behalf of a client are deferred and expensed in the Income Statement over a 12-month period as the handset is generally aligned to a 12-month contract of continuance service on the consolidated entity's network.

Dealer upfront commission payments – fixed wire customers

Payments made to dealers for the acquisition of fixed wire customers are deferred and expensed in the Income Statement over a six-month period. The basis for this policy is that:

- the consolidated entity has the legal right to reclaim the payment from the dealers should the customer cancel their contract within three months of signing up with the consolidated entity; and,
- due to the possibility of a small percentage of customers breaking the contract or generating a bad debt, the company policy is to expense the dealer upfront commission payments for fixed wire customers over the shortest period over which benefits are expected to accrue.

Dealer upfront commission payments – mobile customers

Payments made to dealers for the acquisition of mobile customers are deferred and expensed in the Income Statement over an 18-month period. Generally, the payment is aligned to a 24-month contract of continuance service on the consolidated entity's network. Due to the possibility of a small percentage of customers breaking the contract or generating a bad debt, the company policy is to expense the dealer upfront commission payments for mobile customers over the average period over which benefits are expected to accrue.

Corporate Data customer set up costs

Third party costs incurred in the set up of data customers are expensed in the Income Statement when the set up or installation is complete. Any revenue for such set up is also recognised when the set up or installation is complete.

Miscellaneous pre-paid expenses

All expenses that are pre-paid are expensed over the period that they relate.

Carrier commission / subsidies

A commission / subsidy are generated from certain carriers on the signing of a contract and/or the delivery of a new mobile number on the carrier's network. This commission / subsidy is taken to revenue and booked to the Income Statement over 24 months, the period over which commission is repayable to carrier, if the contract is broken.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

i) Impairment of Assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired. An impairment loss is recognised in the Income Statement where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

j) Depreciation and amortisation

Plant and equipment

The depreciable amount of all fixed assets and capitalised leased assets is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Asset</i>	<i>Depreciation Rate</i>
Telecommunications infrastructure	5% - 10%
Office plant & equipment	20% - 33%
Leased plant and equipment	20% - 33%
Computer equipment, software and website development	45%
Leasehold improvements	term of lease

Regular review of depreciation and amortisation rates

Depreciation and amortisation rates and methods are reviewed at least annually and will be adjusted to reflect the most recent assessments of the useful life of the respective assets.

Changes to depreciation rates and methods

When depreciation rates or methods are changed, the change is accounted for as a charge in the Income Statement. The effect is recognised in the financial year of the change as well as future periods. Depreciation recognised in previous financial periods is not changed or adjusted via the Income Statement or Accumulated Losses.

k) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount.

l) Interest-bearing liabilities

All borrowings are measured at the principal amount. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Interest is charged as an expense as it accrues.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

m) Provisions

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of obligation.

n) Employment Entitlements

Wages, salaries and annual leave

Liabilities for employee entitlements, to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on wage and salary rates including related on-costs expected to apply at settlement.

Share based payments

The consolidated entity operates employee share schemes. The market value of shares issued to employees for no cash consideration is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

Superannuation plan

The consolidated entity contributes to several defined contribution superannuation plans. Contributions to employee superannuation funds are charged against income as they are paid or become payable.

o) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

p) Revenue

Revenue is recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Rendering of Telecommunication Services

Revenue from the provision of telecommunication services is recognised (net of discounts) when the customer utilises the service.

Revenue from the set up or installation of telecommunication services is recognised when the set up or installation is complete.

Revenue from the supply of a bundled mobile handset is recognised when the mobile service is activated. The revenue is measured at the fair value of the consideration to be received over the life of the contract.

Interest revenue

Interest revenue is recognised as it accrues.

q) Borrowing costs

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction where they are capitalised up to the date of commissioning or sale.

r) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has also entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 1: Statement of Significant Accounting Policies (cont'd)

s) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Cash flows are included in the Statements of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

t) Earnings per share

Basic Earnings Per Share (EPS) is calculated as net profit / (loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit / (loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses;
- other non discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares; and,
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

u) Comparatives

In accordance with the first-time adoption of AIFRS, comparative information has been reclassified where appropriate through retrospective application of AIFRS to the previous year results so as to achieve consistency with current year disclosures.

(v) Adoption of Accounting Standards before their due date

Certain new accounting standards and Urgent Issues Group (UIG) interpretations have been issued with an application date after the year ended 30 June 2006. As a result these accounting standards and UIG interpretations are not mandatory for adoption in the financial report for the year ended 30 June 2006, nor has the consolidated entity adopted early any of these new accounting standards or UIG interpretations.

It is also considered that these new accounting standards or UIG interpretations will not have a material impact on the consolidated entity.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 2: Revenue from ordinary activities		
Revenue from rendering telecommunications services	110,781,591	100,041,117
Other revenue		
Interest income	188,979	187,274
Total Revenue from ordinary activities	110,970,570	100,228,391
Note 3: (Loss) from ordinary activities		
<i>Expenses from ordinary activities include the following:</i>		
Borrowing costs expensed		
Interest expense		
- Finance lease	88,339	95,385
- Other	6,786	-
Other borrowing costs	-	8,059
Total borrowing costs	95,125	103,444
Asset impairment loss	21,241,233	1,907,433
Depreciation - plant and equipment	766,844	700,538
Amortisation - customer acquisition costs	4,545	-
Total depreciation and amortisation	771,389	700,538
Movement in allowance for doubtful debtors	487,280	(176,090)
Bad debts written off	793,551	1,098,657
Movement in provision for employee entitlements	35,692	140,351
Share based remuneration payments	134,573	228,000
Auditors' Remuneration:		
Auditing or reviewing the financial report		
Pitcher Partners	104,128	118,694
Other Services		
Pitcher Partners	43,500	18,000

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 4: Income Tax Expense		
<i>(a) Major components of tax expense</i>		
Current tax expense (income)	(263,491)	(83,562)
Deferred tax expense relating to the origination and reversal of temporary differences	129,975	481,220
Deferred tax asset in respect of current tax expense (income) not recognised	263,491	83,562
Deferred tax income relating to temporary differences not previously recognised as an asset	(129,975)	(481,220)
Under provided tax in prior year	6,160	-
Tax expense	6,160	-
 <i>(b) Explanation of the relationship between tax expense and accounting loss</i>		
The prima facie tax benefit on operating loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2005: 30%)	6,481,052	178,924
Tax effect of expenses that are not deductible in determining taxable profit:		
Asset impairment loss	(6,372,369)	(572,230)
Non-deductible costs	(50,254)	(97,626)
Tax effect of non assessable income	-	16,377
Tax effect of items deductible in determining taxable profit:		
Other deductible items	23,709	23,709
Deferred tax income relating to temporary differences not previously recognised as an asset	-	481,220
Tax effect of tax loss not recognised as an asset	(82,138)	(30,374)
Under provided tax in prior year	6,160	-
Income tax expense	6,160	-

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 4: Income Tax Expense		
<i>(c) Deferred tax assets not recognised in the balance sheet</i>		
Temporary differences	(9,695)	120,280
Estimated and unconfirmed unused tax losses	6,443,272	6,179,781
	6,433,577	6,300,061

The potential future income tax benefits arising from estimated and unconfirmed tax losses has not been recognised as an asset and will only be obtained if:

- i. Assessable income is derived of a nature and of an amount sufficient to enable such benefits to be realised;
- ii. Conditions for deductibility imposed by the relevant law are complied with; and,
- iii. No changes in the tax legislation adversely affect the realisation of the benefit from the deduction.

(d) Summary of temporary differences not recognised in the balance sheet

Amounts only deducted for taxation when paid:

Doubtful debts	324,479	178,295
Employee provisions	143,034	132,326
Staff related accruals	128,136	162,354
Other operating costs	159,632	224,262
Differences between accounting and tax carrying value of property, plant and equipment	270,765	292,767
Customer acquisition costs not yet expensed but deducted for taxation when paid	(1,034,816)	(953,374)
Unearned income included in taxable income when received	(925)	83,650
	(9,695)	120,280

Deferred tax (liability) / asset not recognised in the balance sheet

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 5: Earnings per share		
Basic earnings/(loss) per share (cents per share)	(7.04)	(0.20)
Diluted earnings/(loss) per share (cents per share)	(7.04)	(0.20)
Net Loss used in the calculation of basic and diluted EPS	21,609,667	596,412
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted EPS	306,760,483	305,616,209

Options on issue are considered to be potential ordinary shares. In accordance with AASB 133, none of the options on issue were considered to be potentially dilutive as the exercise price exceeded the average market share price during the year ended 30 June 2006.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 6: Cash assets		
Cash at bank	4,163,924	2,668,391
Deposits	716,000	-
Cash on hand	2,850	3,131
	<u>4,882,774</u>	<u>2,671,522</u>

Note 7: Receivables (current)		
Trade debtors (billed and unbilled)	15,126,253	16,290,959
Allowance for doubtful debtors	(1,081,596)	(594,316)
	<u>14,044,657</u>	<u>15,696,643</u>
Other debtors	93,416	453,948
	<u>14,138,073</u>	<u>16,150,591</u>

Note 8: Other assets (current)		
Prepayments	721,959	579,006
Deferred upfront commission costs – mobile customers	2,009,599	1,862,634
Unbilled handset revenue	585,903	485,534
Deferred upfront commission costs – fixed wire customers	81,455	161,859
Deferred VOIP handset costs	35,720	150,684
Other deferred costs	257,147	178,664
	<u>3,691,783</u>	<u>3,418,381</u>

Note 9: Other financial assets (non-current)

Deposits ⁽¹⁾	<u>819,643</u>	<u>1,557,403</u>
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(1) These financial assets are provided as security for bank guarantees given to third parties.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 10: Property, plant and equipment		
<i>(a) Carrying values</i>		
Telecommunications Infrastructure -at cost	2,485,318	2,476,018
Less accumulated depreciation	(687,649)	(563,446)
	1,797,669	1,912,572
Office plant and equipment - at cost	942,309	760,570
Less accumulated depreciation	(561,461)	(319,641)
	380,848	440,929
Leased plant and equipment - at cost	629,355	629,355
Less accumulated depreciation	(514,472)	(327,546)
	114,883	301,809
Leasehold improvements – at cost	381,720	250,734
Less accumulated depreciation	(116,017)	(47,204)
	265,703	203,530
Computer equipment, software and website development - at cost	456,310	228,922
Less accumulated depreciation	(249,267)	(104,183)
	207,043	124,739
Total property, plant and equipment	2,766,146	2,983,579
<i>(b) Reconciliations</i>		
Telecommunications Infrastructure		
Carrying amount at the beginning of the year	1,912,572	2,043,602
Additions	9,302	20,170
Transfers	-	(39,610)
Depreciation	(124,205)	(111,590)
Carrying amount at year end	1,797,669	1,912,572

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 10: Property, plant and equipment		
<i>(b) Reconciliations con't</i>		
Office plant and equipment		
Carrying amount at the beginning of the year	440,929	389,655
Additions	181,736	244,486
Transfers	-	(6,263)
Depreciation	(241,817)	(186,949)
Carrying amount at year end	380,848	440,929
Leased plant and equipment		
Carrying amount at the beginning of the year	301,809	509,240
Depreciation	(186,926)	(207,431)
Carrying amount at year end	114,883	301,809
Leasehold Improvements		
Carrying amount at the beginning of the year	203,530	69,062
Additions	130,984	179,722
Transfers	-	69,228
Depreciation	(68,811)	(114,482)
Carrying amount at year end	265,703	203,530
Computer equipment, software and website development		
Carrying amount at the beginning of the year	124,739	134,406
Additions	435,621	250,102
Transfers	-	(23,355)
Depreciation	(145,086)	(80,086)
Equipment written off	(208,231)	(156,328)
Carrying amount at year end	207,043	124,739
Note 11: Other assets (non-current)		
Deferred upfront commission costs – mobile customers	362,688	413,098
Unbilled handset revenue	50,465	53,596
Other deferred costs	66,408	22,528
	479,561	489,222

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 12: Goodwill		
Goodwill at cost	38,148,666	38,148,666
Less asset impairment loss	(1,907,433)	(1,907,433)
	<u>36,241,233</u>	<u>36,241,233</u>

The goodwill above which has an indefinite useful life was generated upon the acquisition of the People Telecommunications Pty Limited group of companies in June 2004. The impairment testing compares the carrying value of goodwill with the recoverable amount of the underlying cash generating unit of the People Telecommunications Pty Limited business (CGU). This recoverable amount is determined using a value in use calculation.

The assumptions for determining the recoverable amount of goodwill is based on past experience and our expectations of the future. These include:

- (i) Pre tax discount rate of 15.71% (2005:13.70%) which is based on the current market assessments of the time value of money and the risks specific to the CGU.
- (ii) The cash flow projections are based on the forecast for the 2006 / 2007 year for the CGU, plus a growth rate of 2.5% (2005: 3.0%). This growth rate is based on the expectation of the CGU's long term performance.

In respect of the current financial year, the consolidated entity has recognised an impairment loss of \$21,241,233 in respect of the above CGU. The decline in value of the CGU is a consequence of the increased uncertainty and challenges currently facing the Australian telecommunications sector.

Note 13: Payables		
Trade creditors	10,615,828	10,889,902
Accrued expenses	7,476,425	6,827,570
	<u>18,092,253</u>	<u>17,717,472</u>

Note 14: Interest bearing liabilities (current)		
Lease Liabilities	189,375	288,444
Borrowings	76,414	102,009
	<u>265,789</u>	<u>390,453</u>

Note 15: Provisions (current)		
Employee entitlements	476,780	441,087
	<u>476,780</u>	<u>441,087</u>

Note 16: Other liabilities (current)		
Unearned Income - Carrier Commissions / Subsidies	1,354,502	1,931,414
Unearned income – other	1,788,241	1,688,134
	<u>3,142,743</u>	<u>3,619,548</u>

Note 17: Interest bearing liabilities (non current)		
Lease Liabilities	-	178,238
	<u>-</u>	<u>178,238</u>

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 18: Other liabilities (non current)		
Unearned Income - Carrier Commissions / Subsidies	585,002	620,209
Note 19: Contributed equity		
(a) Issued and paid up capital		
307,823,854 fully paid ordinary shares (2005: 305,653,709)	62,383,448	62,103,292
	2006	2006
	Number	\$
(b) Movements in fully paid ordinary shares		
At the beginning of the financial year	305,653,709	62,103,292
Issue of Shares at \$0.10 each	-	-
Issue of shares at \$0.1304 each	2,170,145	282,968
Share issue costs	-	(2,812)
	307,823,854	62,383,448
Note 20: Accumulated losses		
Accumulated losses at the beginning of the year	21,558,368	20,961,956
Net loss from ordinary activities after income tax	21,609,667	596,412
Accumulated losses at the end of the financial year	43,168,035	21,558,368

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

	Consolidated	
	2006	2005
	\$	\$
Note 21: Cash Flow Information		
<i>Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax</i>		
Loss from ordinary activities after income tax	(21,609,667)	(596,412)
Add non-cash items:		
Allowance for doubtful debtors	793,551	943,089
Amounts set aside to provisions	35,693	85,761
Asset impairment loss	21,241,233	1,907,433
Depreciation and amortisation	771,389	700,538
Issue of Shares under Executive Incentive Share Plan	282,968	-
Plant and equipment written off	208,231	156,328
Net cash generated by operating activities before change in assets and liabilities	1,723,398	3,196,737
Changes in assets and liabilities:		
Decrease/(Increase) in trade debtors	858,435	(4,954,807)
Decrease/(Increase) in other receivables	360,532	(197,601)
(Increase) in current prepayments	(273,402)	(1,447,358)
Decrease/(Increase) in other assets	9,660	(191,683)
Increase/(Decrease) in trade creditors and accruals	374,782	3,240,020
(Decrease)/Increase in unearned income	(512,012)	462,474
Cash Flows from Operating Activities	2,541,393	107,782

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 22: Adoption of AIFRS – explanation of changes in accounting policy arising on the first time adoption of AIFRS

Set out below are the key areas where accounting policies have changed on the adoption of AIFRS.

(i) Share based payments

Under AASB 2 Share-based Payment, the company is required to determine the fair value of equity settled transactions and recognise an expense in the Income Statement. Share-based payments to directors and other employees are also be expensed under AIFRS.

On first-time adoption of AIFRS retained earnings at 1 July 2004 (\$nil) and reported results for the year ended 30 June 2005 (\$228,000 adverse impact) have been adjusted for all share-based payments granted after 7 November 2002, which did not vest prior to 1 January 2005.

(ii) Goodwill

Goodwill on consolidation has been recalculated to derecognise intangible assets acquired in business combinations that do not meet the identifiability criteria under AIFRS, and to recognise deferred tax liabilities at the acquisition date under the balance-sheet method.

In accordance with AASB 1, amortisation of goodwill ceases on first-time adoption of AIFRS at 1 July 2004. The carrying amount of goodwill as previously reported under AGAAP at 30 June 2004 is subject to impairment testing from that date.

On adoption of AIFRS, reported results for the year ended 30 June 2005 have been adjusted for amortisation charges from 1 July 2004 (\$1,907,433 positive impact). Amortisation charges prior to 30 June 2004 may not be reversed under the first-time adoption provisions.

(iii) Impairment of Assets

Under AIFRS the recoverable amount test under the previous AGAAP is replaced by impairment testing whereby the recoverable amount is determined as the higher of fair value less costs to sell and value in use. Value in use incorporates the use of discounted cash flows.

On adoption of AIFRS, reported results for the year ended 30 June 2005 have been adjusted for impairment (\$1,907,433 adverse impact).

(iv) Income taxes

Under AIFRS a balance-sheet approach has been adopted under which temporary differences are identified for each asset and liability rather than accounting for the effect of timing and permanent differences between taxable and accounting profit. In addition, a future income tax benefit must be recognised for tax losses where their realisation is considered probable. Under AGAAP tax losses may only be recognised where realisation is considered to be virtually certain.

People Telecom Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2006

Note 23: Adoption of AIFRS – reconciliation of profit / (loss) reported under AGAAP to AIFRS

Reconciliation of Operating Profit after Tax for the financial year ended 30 June 2005

Operating loss after tax for the year to 30 June 2005 as reported under AGAAP:	(\$42,690)
Share-based entitlements earned during the year	(\$228,000)
Goodwill on consolidation adjustments	
- reversal of amortisation for the year	\$1,907,433
- impairment loss arising from events during the year	(\$1,907,433)
Correction of prior period error in trade receivables cut off	(\$325,722)
Operating loss after tax as restated under AIFRS for the year ended 30 June 2005	<u>(\$596,412)</u>

Note 24: Adoption of AIFRS – reconciliation of equity reported under AGAAP to AIFRS

(a) Reconciliation of Total Equity at 1 July 2004

Total equity at 1 July 2004 as reported under AGAAP	\$41,151,443
Adjustments to total equity as at 1 July 2004	-
Total equity at 1 July 2004 as restated under AIFRS	<u>\$41,151,443</u>

(b) Reconciliation of Total Equity at 30 June 2005:

Total equity at 30 June 2005 as reported under Australian Accounting Standards	\$41,098,646
Adjustments to operating loss for the year as described above	(\$553,722)
Total equity at 30 June 2005 as restated under AIFRS	<u>\$40,544,924</u>

Note 25: Adoption of AIFRS – reconciliation of cash flow statement reported under AGAAP to AIFRS

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

People Telecom Limited
Supplementary Information to the Preliminary Final Report
For the year ended 30 June 2006

Dividends

There were no dividends declared or paid during the year ended 30 June 2006, nor are any planned to be declared in relation to the year ended 30 June 2006.

As there is no dividend declared or planned to be declared in relation to the year ended 30 June 2006, the shareholder approved dividend reinvestment plan is currently not in operation.

Net assets

Net tangible assets per security with the comparative figure for the previous corresponding period.

2006	2005
1.40 cents	0.98 cents

Details of entities

There are no entities over which control has been gained or lost during the period.

Details of associates and joint venture entities

There were no associated companies in which equity was held, nor joint ventures in which the group participated.

Significant information

Refer brief explanation of results

Audit Status

This preliminary final report is based upon the consolidated entity's financial report which has been audited. Refer to the Annual Financial Report for the year ended 30 June 2006 for the independent audit report to the members of People Telecom Ltd.